

PRESENTATION AIDS

ON

RISING FOOD PRICES -- SOME IMPLICATIONS

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RISING FOOD PRICES -- SOME IMPLICATIONS

FOOD PRICE RISES -- HOW MUCH ??

	<u>FEB. '73 -- FEB. '74</u>
ALL FOOD	20.2 %
FOOD AWAY FROM HOME	13.3 %
FOOD AT HOME	22.2 %
MEAT, FISH, POULTRY	22.0 %
DAIRY PRODUCTS	23.4 %
CEREAL & BAKERY PRODUCTS	31.1 %
FRUITS & VEGETABLES	17.0 %

WHO DID THAT TO US ??

WHY ??

CONSUMER PRICE INDEX COMPARISONS

1967 - FEB. '74

	<u>INCREASE</u>
CONSUMER PRICE INDEX	51%
FOOD	58%
HOUSEHOLD SERVICES	49%
INSURANCE AND FINANCE	58%
CLOTHING	30%
MEDICAL CARE	43%
RENT	28%
HOUSEHOLD DUR.	22%
HOUSEHOLD & HOME MAINTENANCE SERVICE	57%
NEW CARS	13%
GAS & OIL	47%

WHO DO CONSUMERS BLAME FOR
HIGH FOOD PRICES ?

(SURVEY AT TIME OF MEAT BOYCOTT)

- - CONSUMERS BLAME:

FARMERS	8 %
RETAILERS	14 %
FOOD PROCESSORS	25 %
LABOR	45 %
CONSUMERS	15 %
DON'T KNOW	17 %

* MORE THAN ONE ANSWER PERMITTED

- - MORE RECENTLY CONSUMERS HAVE BLAMED
GOVERNMENT POLICY-ACTIONS

FAMILIES HAVE MADE CHANGES

	<u>1972/1973</u>
-- FOOD PRICES	+ 20 %
-- FOOD EXPENDITURES	+ 11-12 %
-- USE PER PERSON	- 1 1/2 %
-- <u>SOME SHIFT IN DIETS HAD TO OCCUR</u>	

FACTORS IN RISING FOOD PRICES

-- WORLD SITUATION

POOR WEATHER: FISHING

MORE PEOPLE: + 2 % PER YEAR

RISING INCOMES: + 3 % PER YEAR

BETTER DIETS: MEAT

DEVALUATION INCREASED TRADE

\$ 9 BIL. TO \$17 BIL. (1973 CALENDAR)

1/6 TO U.S.S.R.: 5/6 TO REST OF WORLD

-- DOMESTIC FACTORS

POOR 1972 HARVEST WEATHER: 1973 PLANTING

ENVIRONMENTAL CONTROLS: DES

INCOMES: FOOD STAMPS: SOCIAL SECURITY

BOYCOTTS: PRICE CEILINGS

LESS MEAT: MORE OTHER FOODS

HAD GRAINS: FACILITIES

WHY DOES FOOD COST MORE?

-- EATING MORE:

+6% PER PERSON

-- SHIFTING DIETS LAST 10 YEARS:

PORK + 8 %

BEEF + 16%

POULTRY + 37 %

RESULT +150 LBS. MORE FOOD PER FAMILY

-- BUILT-IN MAID SERVICE:

PACKAGED IN RIGHT SIZE

PRECOOKED & READY TO SERVE

SNACKS

-- EATING OUT: + 30 %

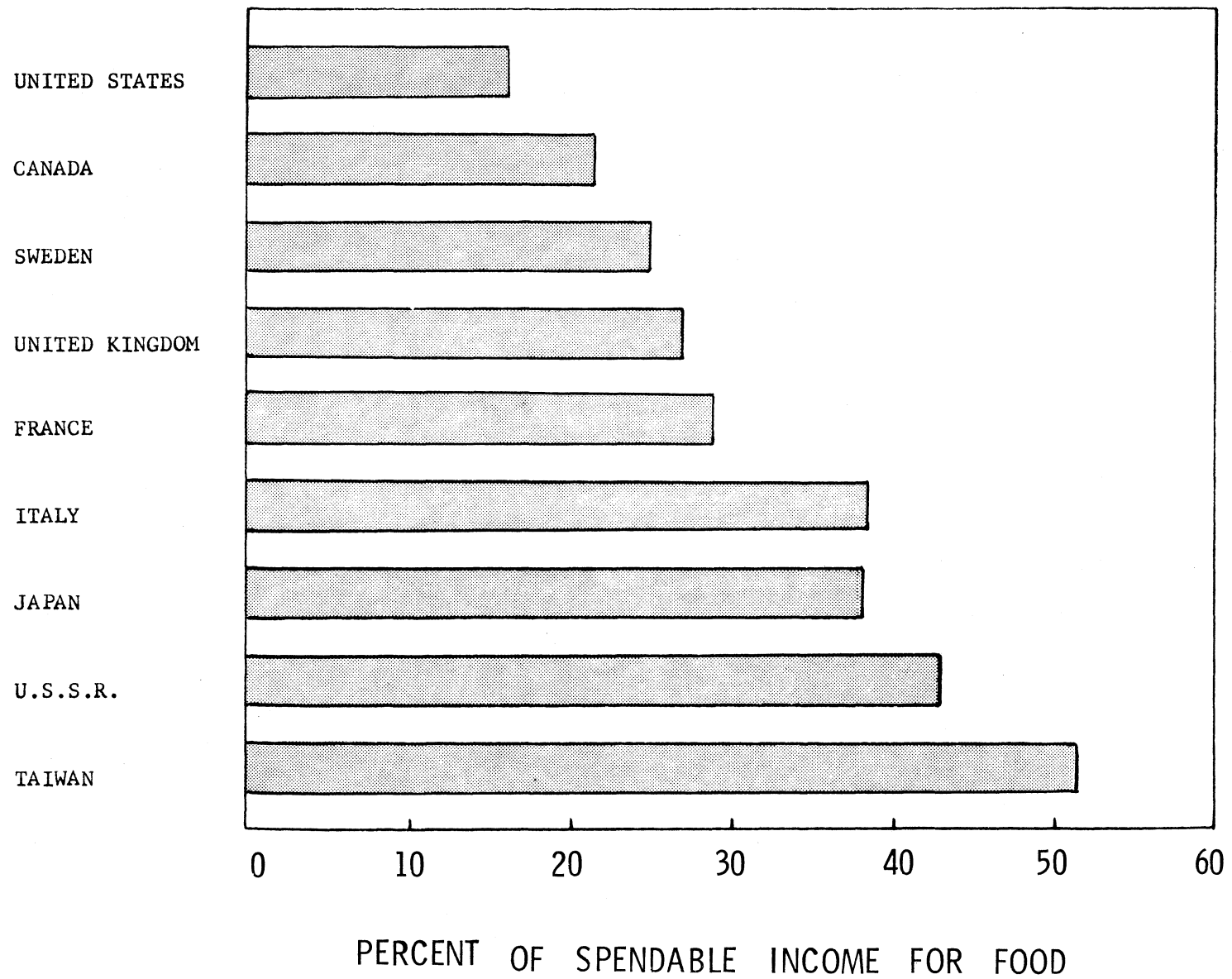
-- HIGHER PRICES -- INFLATION OF 51%

HOW MUCH INCOME GOES FOR FOOD ? *

FAMILY SIZE	ANNUAL INCOME AFTER TAXES		
	\$3,000	\$10,000	\$20,000
	(PERCENT FOR FOOD)		
YOUNG COUPLE	42 %	13 %	6 %
OLDER COUPLE	35 %	10 %	5 %
FAMILY OF 4 (2 Preschoolers)	61 %	18 %	9 %
FAMILY OF 4 (2 Teenage Girls)	83 %	25 %	12 %
FAMILY OF 6 (2 Preschoolers, 2 School Age)	88 %	26 %	13 %

* BASED ON USDA LOW-COST FOOD PLAN

COST OF FOOD AROUND THE WORLD



SOME EFFECTS OF 1973 MEAT BOYCOTT WEEK

- LITTLE MEAT PRICE CHANGE
- REDUCED MEAT SALES
- INCREASED NON-MEAT SALES: HIGHER PRICES
- LAYOFFS OF MEAT CUTTERS: BUTCHERS
- LIVESTOCK MARKETINGS REDUCED
- FARMERS NERVOUS
- POLITICIANS "JUMPY": PRICE CONTROLS
- CONSUMERS EXASPERATED

SOME EFFECTS OF CONTROLS

-- FOOD RETAILERS

UNCERTAINTY ABOUT SUPPLIES: PRICES

PROFITS SQUEEZED

FINANCING DIFFICULT: EFFICIENCY POSTPONED

-- MEAT PROCESSORS

GREY MARKET

CLOSED: MAY NOT OPEN

-- CONSUMERS

BOYCOTTERS: HOARDERS

CHANGED DISTRIBUTION

-- DISTORTED MARKETS AND MARKETINGS IN 1973 & 1974

BEEF: PORK: POULTRY

DEVALUATION EFFECTS PRICES

-- REVALUATION MEANING TO MID-1973

. CHEAPER U.S. PRODUCTS

MORE INDUSTRIAL EXPORTS

EXPANDS AGRICULTURE SALES

. HIGHER PRICED IMPORTS

FEWER IMPORTS: CARS, ETC.

BUILD PLANTS IN U.S.

-- INTERDEPENDENT

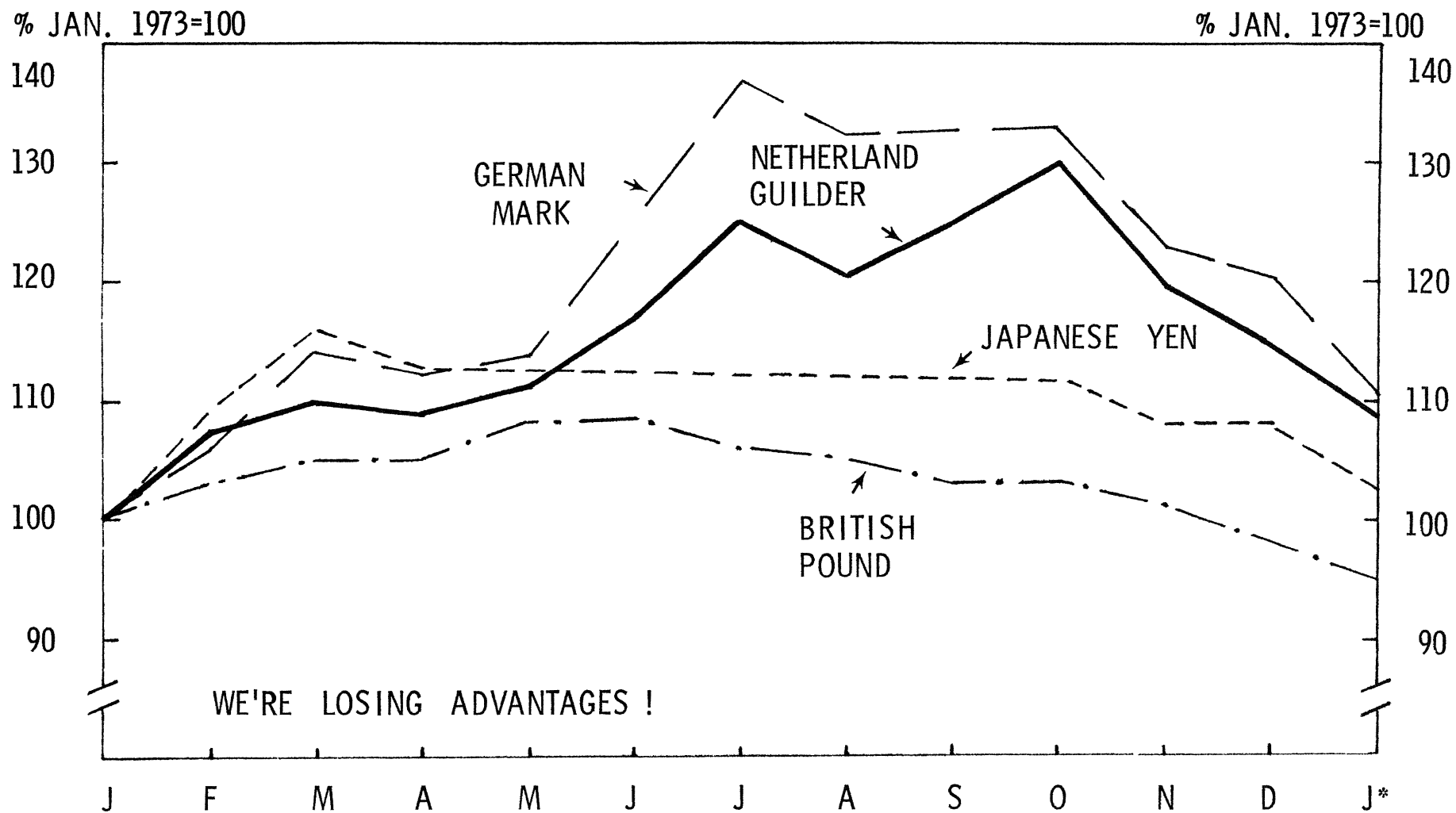
. U.S. AGRICULTURE IS WORLD'S MOST
EFFICIENT IN FEED GRAIN; SOYBEANS & WHEAT

. AGRICULTURE EARNING FOREIGN EXCHANGE

. AGRICULTURE PAYS FOR ENERGY

JOBS: HOMES: CARS

FOREIGN CURRENCIES VS. THE DOLLAR (\$)



* BASED ON JANUARY 7, 1974, EXCHANGE RATES.

RUSSIAN GRAIN PURCHASE

EXPORTS IN 1972-73 +\$ 6 BIL. OVER 1971-72

SALES TO U.S.S.R. + \$ 1.1 B/L.

QUANTITY:	WHEAT	440	MIL.	BU.
	CORN	280	MIL.	BU.
	SOYBEANS	40	MIL.	BU.

REASONS:

- WEATHER
- ECONOMIC SYSTEM
- CHANGING PRIORITIES

FUTURE TRADE:

U.S.S.R.

EXPAND BUT ERRATIC
1973-74: VALUE HALF OF 1972-73

PEOPLES REPUBLIC OF CHINA

EXP AND

1973-74 OVER \$ 1.1 BILLION

BREAD COSTS AND WHEAT PRICES ?

Ingredient Costs: 1 lb. loaf White Bread

	<u>Farm Price of Wheat/BU.</u>	
	<u>\$3.50</u>	<u>\$6.00</u>
RETAIL PRICE OF BREAD	28¢	35¢
FARM VALUE, ALL INGREDIENTS	6.6¢	10.1¢
FARM VALUE, WHEAT	5.2¢	8.7¢
COST TO BAKER, ALL INGREDIENTS	8.7¢	12.7¢
FLOUR	6.1¢	10 ¢

WHAT DOES THE FUEL CRISIS MEAN TO FOOD COSTS?

- ENTIRE FOOD SYSTEM USES ABOUT 12 % OF
U.S. TOTAL ENERGY REQUIREMENTS

- FUEL COST: 5 - 6 % OF RETAIL FOOD PRICE

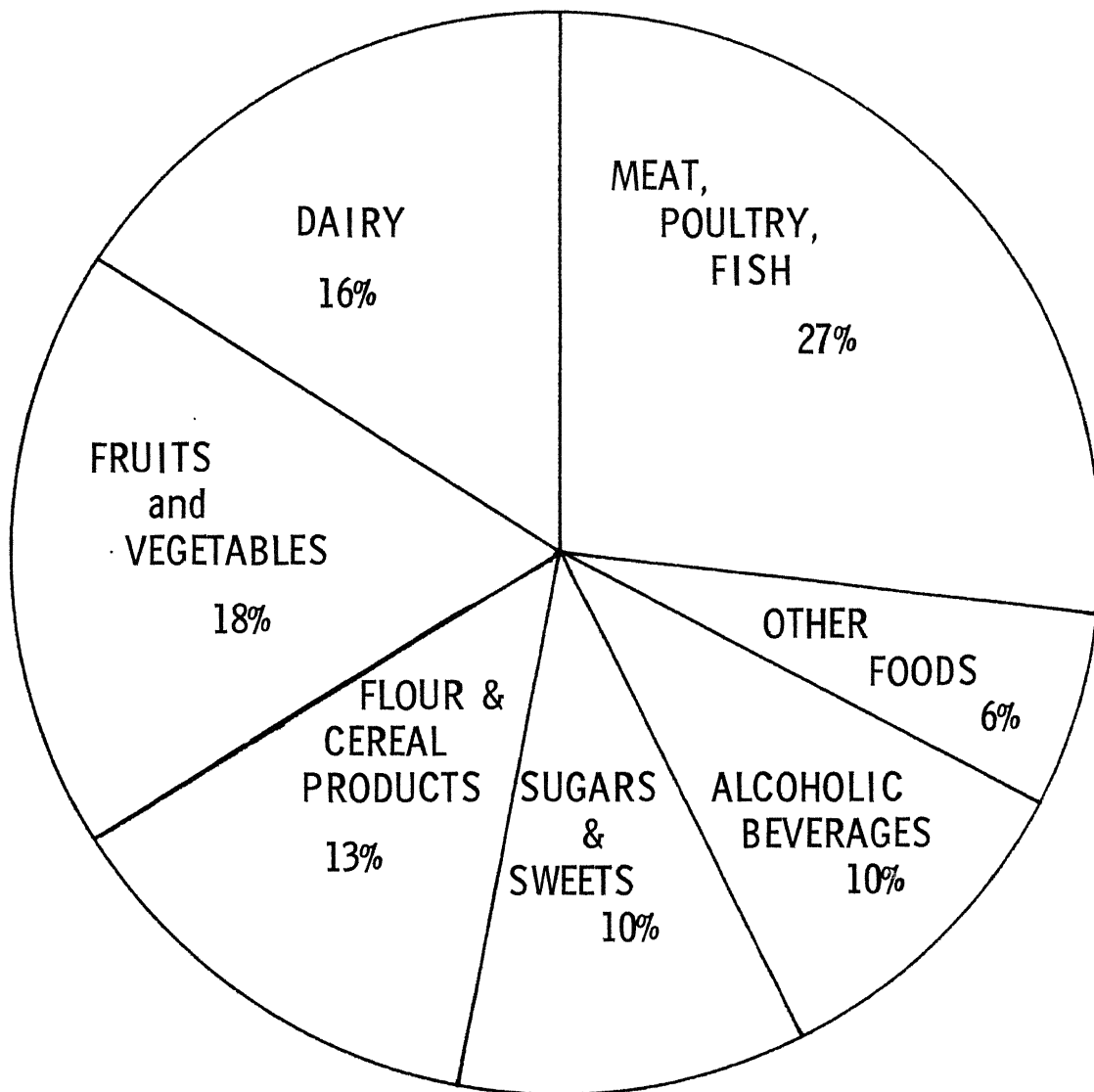
- EACH DOUBLING OF FUEL PRICE: FOOD PRICES
INCREASE 7 TO 13 %

- INCREASE DEPENDS UPON FUEL NEEDED:
 - FOR PRODUCING AND PROCESSING PRODUCT

 - FOR MORE FARM SUPPLIES
(Fertilizer, petroleum-based chemicals)

 - FOR NATIONAL AND INTERNATIONAL TRANSPORTATION

DISTRIBUTION OF ENERGY USE
IN FOOD INDUSTRY



WORLD ENERGY SHORTAGES AND U.S. FARM TRADE

-- POSITIVE EFFECTS

RAPIDLY RISING FOOD PRICES: FEW BARRIERS

EXPAND LIVESTOCK: MORE GRAIN

SHORTAGES OF MAN-MADE FIBERS: MORE COTTON

SHORTFALL OF FERTILIZER: SELL GRAIN

-- NEGATIVE EFFECTS

CURTAILED GROWTH AND INCOMES

IMPROVING DOLLAR MEANS PRICE RISES

HIGHER FREIGHT RATES

MASSIVE BALANCE OF PAYMENTS DEFICITS

-- WEATHER UNCERTAINTIES??

FOOD POLICY -- EXPANDING ACREAGE IN 1973

-- GOAL

- . MEET DOMESTIC AND FOREIGN FOOD & FEED NEEDS

-- FARMERS CAUTIOUS

- . REMEMBER "FEED THE WORLD" OF 1960'S
- . POOR WEATHER & FISHING WON'T CONTINUE
- . DIDN'T WANT TO OVERDO

-- GOVERNMENT ACTIONS IN 1973

- . SOLD CCC GRAIN (RESERVES)
 - . ALL CCC LOANS EXPIRED
 - . RELAXED SET-ASIDE
 - + 42 MIL. ACRES
 - + 23 MIL. IN GRAINS: 25 MIL. PLANTED
- ADVERSE 1973 PLANTING SEASON

RESULTS OF FOOD POLICY IN 1973

-- EXPANSION

	<u>ACRES</u>	<u>OUTPUT</u>
CORN	61.7 MIL. (+7%)	+ 1%
SOYBEANS	56.4 MIL. (+22%)	+23%
WHEAT	53.7 MIL. (+13%)	+ 7%

-- TOOK MORE INPUTS

500,000 NONFARM JOBS: INCOME

NONFARM COMMUNITY GAINED

-- HIGHER FARM INCOME

1973 = + 30-35 %: 1974 DOWN SOME

-- HIGHER PRICES TO CONSUMERS

OF 20 % INCREASE

DOMESTIC: ABOUT 15 %

FOREIGN : ABOUT 5 %

SOVIETS : ABOUT 1 %

1974 FOOD SETTING

-- GOVERNMENT ACTION

- . NO SET - ASIDE REQUIRED: NO CONSERVING BASE
- . NET EFFECT
 - + 20 MIL. ACRES
- . TOTAL ACRES RELEASED
 - 62 MIL. ACRES
- . YIELDS (80 %)

-- MARGINAL LAND BEING PLOWED

-- UNCERTAINTIES IN 1974: BEYOND

- . ENERGY AND FERTILIZERS AVAILABILITY: COSTS
- . INTERNATIONAL MONETARY POLICY

-- RESULTS

- . LOW FOOD STOCKS AROUND WORLD IN 1974
- . 1974 A 'GOOD' YEAR FOR AGRICULTURE

LOOKING AHEAD ??

-- ONE TO THREE YEARS HENCE

ADVERSE WEATHER NOT PERMANENT

LONG-RUN FOREIGN DEMAND

INDUSTRIALIZED: COMMUNIST

REVALUATION IN 1974

SUPPLY RESPONSE

IMPORTING COUNTRIES

EXPORTING COUNTRIES

-- RESULTS

HIGHER PRICES THAN 1966-72

HIGHER & RISING COSTS: INFLATION

MORE PRICE FLUCTUATIONS

MANY BUSINESSES SQUEEZED

FARM PRODUCTIVITY AND FOOD OUTPUT

-- HIGH: BUT SLOWING DOWN

5-YR. PERIOD	(1967 = 100)		
	OUTPUT/ACRE INDEX	OUTPUT/UNIT OF INPUT INDEX % PREVIOUS 5 YRS.	
1950-54	71	75	XX
1955-59	80	85	12.7 %
1960-64	93	95	12.2 %
1965-69	102	100	4.6 %
1970-73	111	105	4.9 %

-- NOW USING MORE RESOURCES TO GET HIGHER OUTPUT

-- POSSIBLE REASONS FOR SLOWDOWN IN OUTPUT

BEST TECHNOLOGIES USED

ECOLOGY RESTRAINTS

NON-FARM USE OF GOOD FARM LAND

LOW COST GRAZING LAND SCARCE

-- MEANS HIGHER FARM AND FOOD PRICES

FOOD EXPENDITURES AND INCOME

-- INCOMES HAVE GONE UP FASTER THAN FOOD
EXPENDITURES

<u>YEAR</u>	<u>% DISPOSABLE INCOME SPENT FOR FOOD</u>
1930	24.2%
1950	22.2%
1970	16.2%
1971	15.8%
1972	15.7%
1973	15.9%
1974	16-17%

-- IS THE ERA OF "CHEAP FOOD" ENDING?

-- WILL INCOMES RISE FASTER THAN FOOD
EXPENDITURES?

U.S. FOOD POLICY GOALS

- PRODUCE ABUNDANTLY AND EFFICIENTLY FOR
U.S. CONSUMERS
- PRODUCE FOR EXPANDING WORLD MARKETS
- MAINTAIN DEPENDABILITY AS A WORLD SUPPLIER
- PROVIDE FOR HUMANITARIAN NEEDS AT HOME
AND ABROAD
- IMPROVE FARM INCOMES AND RURAL COMMUNITIES

BACKUP TO U.S. FOOD POLICY

-- CROPLAND USED: 330 MIL. ACRES

-- ADDITIONAL ACREAGE POTENTIALLY AVAILABLE:
400 MIL. ACRES

IDLE LAND: 50 MIL.

CROPLAND PASTURE: 90 MIL.

NON-CROPLAND SUITABLE FOR CROPS: 260 MIL.

-- HIGHER YIELDS ONLY: +50 % IN OUTPUT

APPLY PRESENT KNOWLEDGE

	<u>1972 Avg.</u>	<u>Top 10%</u>	<u>% of Avg.</u>
CORN	97 bu.	143 bu.	148 %
WHEAT	34 bu.	51 bu.	149 %
SOYBEANS	28 bu.	45 bu.	160 %

-- DEVELOP NEW TECHNOLOGY

CROPS:

HYBRIDS, HIGHER PROTEIN DISEASE RESISTANT

LIVESTOCK:

MULTIPLE BIRTHS, BETTER FEEDING, CROSS
BREEDING

-- REQUIREMENT

HIGHER FARM AND FOOD PRICES

TO SUM UP:

- WE ARE AFFLUENT (HAVE MONEY)
- WE WANT MEAT: BEEF
- HIGHER DEMAND = HIGHER PRICES
- NO EXCESS PROFIT IN FOOD SYSTEM
- INFLATION IS A FACTOR

PRICE CONTROLS COUNTER PRODUCTIVE

- NOW FOOD POLICY: NOT FARM POLICY

U.S. HAS PRODUCTION CAPACITY

TAKES MORE RESOURCES: HIGHER PRICES

- FARM EXPORTS NEEDED

BUY ENERGY: JOBS, HOMES, CARS